

REQUEST FOR COUNCIL ACTION

MEETING
DATE: 10/6/03

13

AGENDA SECTION: CONSENT	ORIGINATING DEPT: Administration	ITEM NO. D-3
ITEM DESCRIPTION: City Adoption of a Resolution for Participation in State BioScience Zone Economic Development Program		PREPARED BY: G. Neumann

The attached letter to the Olmsted County Board provides a detailed explanation of the two new economic development initiatives of the State of Minnesota; the JobsZ zone program and the BioSciences Zone program. The Council has previously approved a resolution of support for the JobsZ program and tax exemptions under that program. At this meeting, the Council will be requested to adopt a resolution of support for the City's participation in the BioSciences Zone program.

The BioSciences Zone program has some similarities and some differences to the JobsZ Zone program. The main similarity is that significant tax incentives are available to businesses under both programs.

Under the JobsZ zone program, there is an unlimited amount of state tax credits available to participating communities. Virtually all Greater Minnesota cities are eligible to participate in the JobsZ program. However, because the economy in SE Minnesota and in Rochester is stronger, in the view of the State officials, than other areas of Greater Minnesota, communities in this area will likely have only limited participation in the JobsZ zone program. In Rochester, we are trying to get the former Celestica Building and about 20 acres of vacant land in the City industrial park included. Other smaller communities in Greater Minnesota are likely to be approved for more sites and more acreage than Rochester.

The BioSciences Zone program is specifically targeted to the three cities of Minneapolis, St. Paul and Rochester where there is a linkage to the bioscience research being done at the U of M and Mayo Clinic. Like the JobsZ program, there are significant tax credits that might be available under the program. However, at present, there is a statewide limit of \$1 million in tax credits available under the BioSciences Zone Program which is not significant in comparison to the JobsZ program. There is to be only one BioSciences Zone and the Department of Employment and Economic Development (DEED) wants it to be shared jointly into three sub-zones in the three cities. We have been meeting with representatives of Minneapolis, St. Paul and DEED to accomplish this. There is a limit of 5000 acres total for this zone. Rochester has the ability to designate many sites for potential use for biosciences companies under this program. All three cities are considering the designation of between 500 and 1000 acres according to preliminary discussions. The staff has identified the sites in Rochester on an attached map and the acreage is approximately 600 acres. The local exemptions from City sales tax and property taxes will be considered on a case by case basis under this program. In contrast, those exemptions are automatic under the JobsZ program.

COUNCIL ACTION REQUESTED. Adopt the prepared resolution for BioSciences Zone Program with the sites identified, local tax exemptions to be determined on a case by case basis.

COUNCIL ACTION: Motion by: _____ Second by: _____ to:

14

RESOLUTION

Approval to Authorize Bioscience Zone Tax Exemptions

WHEREAS, the Minnesota Legislature found in Minnesota Session Laws 2003, 1st Special Session, Chapter 21, Article 2, as a matter of public policy, that biotechnology and the health sciences hold immense promise in improving the quality of our lives, including curing diseases, making our foods safer and more abundant, reducing our dependence on fossil fuels and foreign oil, making better use of Minnesota agriculture products, and growing tens of thousands of new, high paying jobs; and,

WHEREAS, the legislature further found that there are hundreds of discoveries made each year at the University of Minnesota, the Mayo Clinic and other research institutions that, if properly commercialized, could help provide these benefits; and,

WHEREAS, the Bioscience Program created in Minnesota Session Laws 2003, 1st Special Session, Chapter 21, Article 2 allows for the formation of a Bioscience Zone; and

WHEREAS, an application for a Bioscience zone designation in the City of Rochester is being prepared for submission to the Minnesota Department of Employment and Economic Development by the City of Rochester; and,

WHEREAS, the City of Rochester chooses to support Rochester's efforts to grow and diversify its economy; therefore

BE IT RESOLVED that the City of Rochester Common Council, at its meeting held on ____ day of October, 2003, upon careful consideration and review, approves the specific areas designated in the application for Bioscience Zones, will consider the use of local exemptions on a case by case basis, and tax credits within the designated zones and encourages the Minnesota Department of Employment and Economic Development to approve the Bioscience Zone application being submitted by the City of Rochester.

BE IT FURTHER RESOLVED that the City of Rochester agrees to consider all of the local tax exemptions on a case by case basis, and credits required and provided for under the Bioscience Zone Legislation and agrees to forego the tax benefits resulting from the case by case approved local tax exemptions and state tax exemptions and credits provided under the Bioscience Zone Legislation.

PASSED AND ADOPTED BY THE COMMON COUNCIL OF THE CITY OF
ROCHESTER, MINNESOTA, THIS _____ DAY OF _____, 2003.

PRESIDENT OF SAID COMMON COUNCIL

ATTEST: _____
CITY CLERK

APPROVED THIS _____ DAY OF _____, 2003.

MAYOR OF SAID CITY

(Seal of the City of
Rochester, Minnesota)



Mayor Ardele F. Brede
201 4th Street SE - Room 281
Rochester, MN 55904-3782
Phone: (507) 285-8080 Fax: (507) 287-7979



September 18, 2003

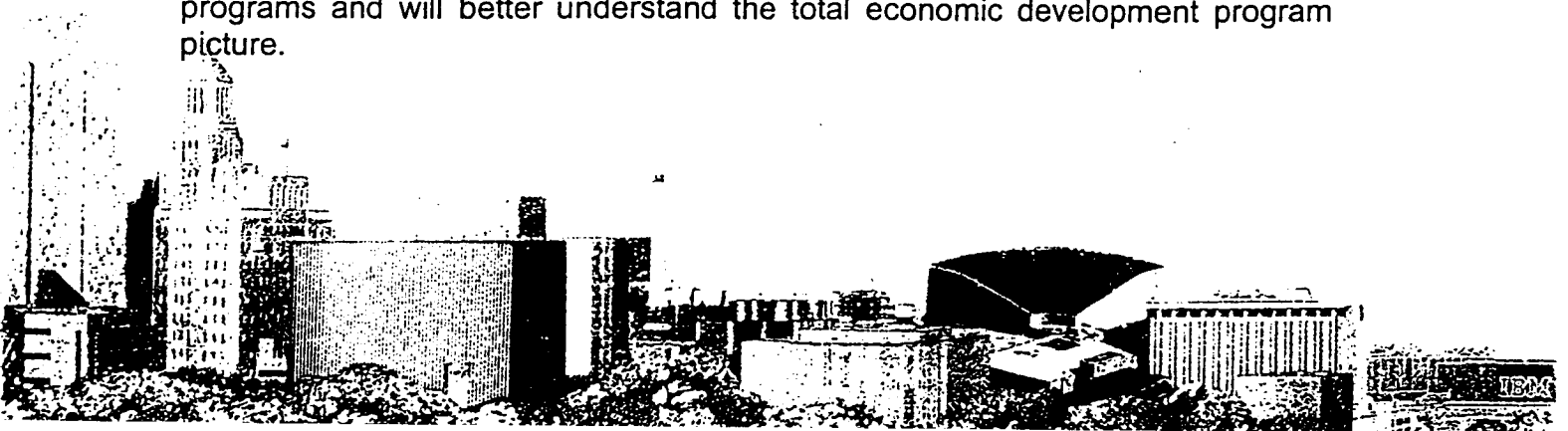
Matt Flynn
Chairman
Olmsted County Board of Commissioners
151 4th Street SE
Rochester MN 55904

Re: Resolutions of Support for Rochester Involvement in State JobZ
and Biosciences Programs

Dear Matt:

The centerpiece of the Governor's economic development initiative is the creation of two new programs, the JobZ Zone Program and the Biosciences Zone Program. These programs could be very beneficial for economic development and job creation for Rochester. In order to participate in these programs, the City must obtain a resolution of support and agreeing to waive local property taxes from the Olmsted County Board. At an upcoming Board meeting, representatives from the City of Rochester and RAEDI will be in attendance to brief the Board on these two programs.

The City staff and RAEDI staff are working on an application under these programs to be submitted to the Department of Employment and Economic Development (DEED). The overall objective is to identify and obtain State approval for sites in Rochester that would have access to the significant State and local tax credits and exemptions available under the programs. I will briefly describe both programs so that the Board is aware of the differences in the programs and will better understand the total economic development program picture.



17
Matt Flynn
Page 2 of 4
September 16, 2003

JobZ Program

The intent of this program is to revitalize economically distressed areas in Greater Minnesota through the provision of tax exemptions and credits to qualified businesses. In Rochester, the closing of the Celestica plant and other high tech job losses is the rationale for our participation in the program. Many communities smaller than Rochester in other counties will have considerably more sites and more acreage designated for State job creation tax incentives under this program. The County's support for some JobsZ Zone sites in Rochester, Stewartville, Byron and other Olmsted County cities will help keep our economy competitive with other areas of Minnesota.

DEED can designate up to 10 JobZ zones in the State, each containing a maximum of 5000 acres. The program is not intended to be applied to existing businesses, but is targeted to new development or vacant buildings. DEED has encouraged communities to partner and submit regional applications for designation. Rochester would be in a sub-zone with communities within all or portions of 10 counties extending from Mankato on the west to the Mississippi River on the east. Several other cities in Olmsted County will also be participating in this application and will require the County's resolution of support.

Sub-zone communities are required to identify specific parcels of land for inclusion in the program. The Rochester sub-zone application includes the Celestica property and building, which is currently vacant, and the remaining vacant land in the Rochester Technology Park. DEED reserves the right to eliminate specific sites and may not accept all the land that we have identified. Qualifying businesses that locate in the designated zones are exempt from local property taxes (except for the value of the land, debt service levies, and school operating levies approved prior to designation), state and local sales taxes, corporate franchise tax, income tax for operators and investors and capital gains tax. They can also obtain employment tax credits. The exemptions run for a period of 12 years. There is no State-wide limit on the amount of tax credits available. Qualified businesses are required to enter into a business subsidy agreement with the City.

In our view, any negative impacts of this program should be minimal, while the potential community benefits in terms of improving our economy and maintaining competitiveness with other communities could be significant. The land we have included in this zone in Rochester is vacant land with the exception of the Celestica parcel. The exemption from property tax payments for new development on vacant land is similar to what we have done for new industrial expansions under the tax increment financing program. The Celestica building is

18
Matt Flynn
Page 3 of 4
September 16, 2003

currently within a tax-increment financing district and as such is not currently providing property tax revenue for the local government jurisdictions. Our hope is that the availability of tax credits under this program will serve to increase the marketability of the Celestica building to create new jobs at that site. We also hope that the tax credits for the vacant land within the Rochester Technology Park will provide a few sites for the growth and attraction of new industry that are competitive with sites with State tax credits in other communities in Greater Minnesota.

Biosciences Program

Under the Biosciences zone program, the DEED Commissioner is allowed to designate one biosciences zone that can contain up to 5000 acres of land. Tax credits and exemptions within this zone are restricted to biotech and health sciences industries. The legislation specifies that the selected zone applicant and participating communities must demonstrate a linkage to either of the research institutions at the U of M or Mayo.

The cities of Rochester, Minneapolis, St. Paul, which are home to the two research institutions, have been targeted as the bioscience zone in the State. DEED is hopeful that a joint application will be submitted from the three cities. We are working with those cities toward that objective. There is currently a limit of \$1 million in tax credits available statewide for this program. The Governor and DEED hope to increase the amount of tax credits in subsequent legislative sessions.

The major differences between this program and the JobZ program are that this program is much more limited in terms of the types of businesses that qualify, there are a much smaller number of communities that are targeted for involvement, there is a very limited amount of tax credits available, and the community has more discretion with regard to granting the property tax exemption.

The tax credits are similar but differ slightly from the JobZ program. The tax credits include: property tax credits (if approved by the City and County), state and local sales and use tax exemptions, corporate franchise tax exemptions, minimum fee for corporations, refundable jobs credits, and refundable research and development credits. The local property tax exemptions are automatic under the JobZ program, but are discretionary under the Bioscience Zone program. The city or county may provide a complete exemption, partial exemption, or no exemption to qualified businesses in the zone. However, local assistance incentives, such as exemptions from local property taxes and sales taxes, are

Matt Flynn
Page 4 of 4
September 16, 2003

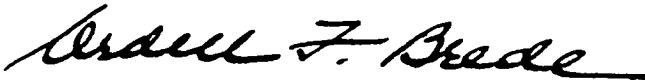
viewed as important to secure the approval for sites in Rochester and to secure some of the limited credits that are available. DEED has the discretion to approve the State tax credits and incentives for specific projects. The qualified businesses need to enter into a business subsidy agreement with the City.

The City will be considering the property tax exemptions on a case by case basis depending upon the specific benefits to the community to be obtained from the new industry and jobs. We likely will not be seeking any property tax exemptions for existing businesses in existing buildings under this program. However, we will consider agreeing to exempt property taxes for qualified businesses in new buildings that are constructed on vacant land in the biosciences zone lands in Rochester for up to the 12-year duration of the program. This would be similar to the City's prior use of tax increment financing assistance for industrial expansions. The property tax exemptions do not apply to land, debt service levies used to pay general obligation bonds, and school operating referenda (if approved by the voters prior to designation of the zone).

At this time, the City and RAEDI staff are working to complete the application and to identify the initial properties that should be included within the Biosciences zone application. There are provisions that enable a community to amend or revise its specific sites in the future if necessary.

I hope that this brief summary will aid the Board in their review of this matter. I believe that these programs are important to keep Rochester and other Olmsted County cities competitive with communities in other counties for economic development and job creation. This is essential for our citizens, businesses, and all the local government units.

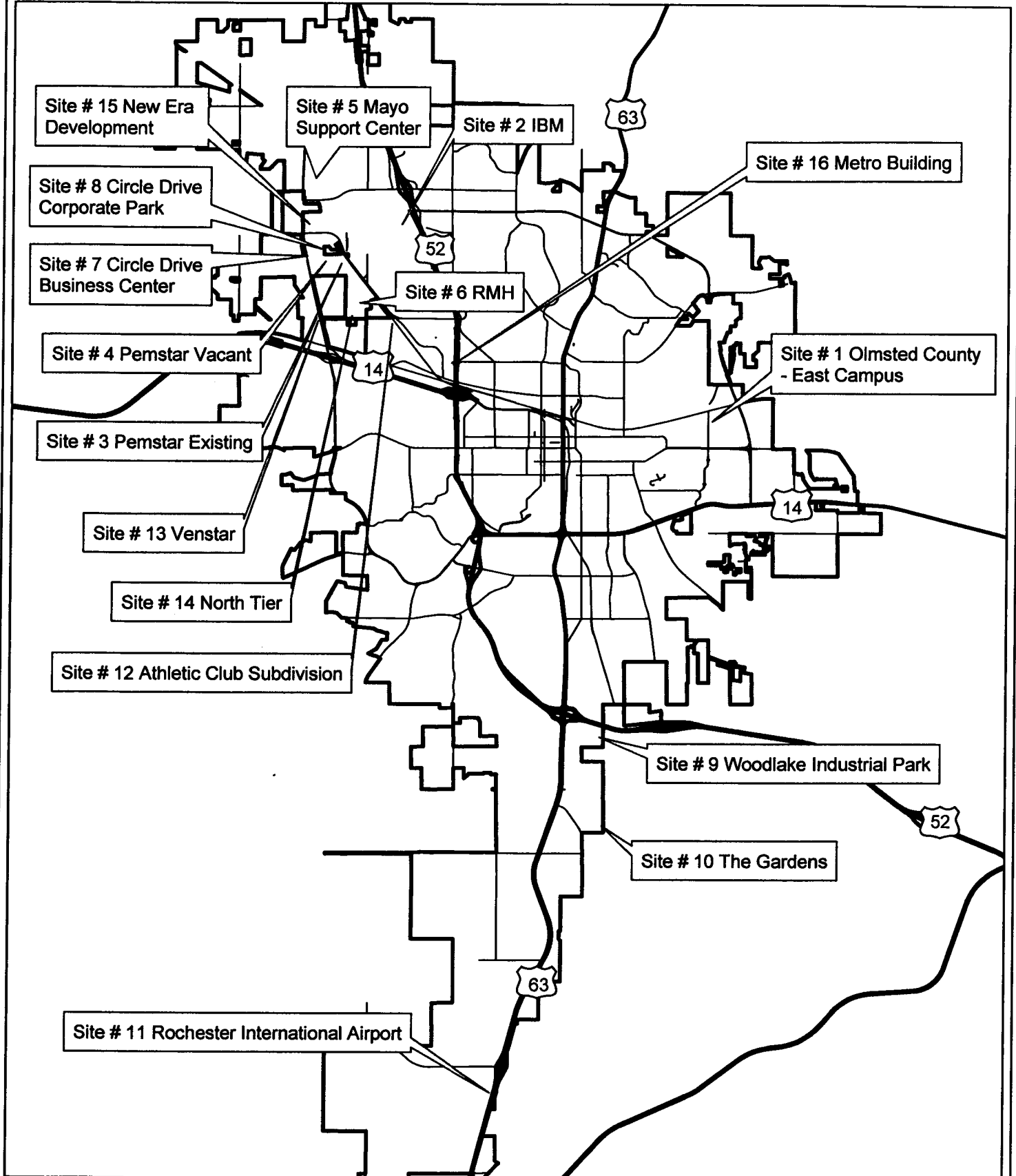
Sincerely,



Ardell F. Brede
Mayor
City of Rochester

c: City Council
Stevan Kvenvold
Gary Neumann
Gary Smith
John Wade

ROCHESTER BIOSCIENCE SUBZONE



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